

Message Text

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ACTION STR-05

INFO OCT-01 STRE-00 ISO-00 CIAE-00 DODE-00 NSAE-00
NSCE-00 SSO-00 USIE-00 INRE-00 AGRE-00 CEA-01
COME-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 PA-01 AID-05 SS-15 ITC-01 TRSE-00 PRS-01
SP-02 FEAE-00 OMB-01 AF-10 ARA-10 EA-10 EUR-12
NEA-10 OIC-02 IO-13 /131 W
-----078096 131733Z /45

O R 131627Z SEP 77
FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 1045
INFO AMEMBASSY BRUSSELS

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USMTN

USEEC

PASS STR FOR ACTION

EO 11652: N/A
TAG: ETRD, MTN, EC
SUBJ: PRELIMINARY TARIFF DISCUSSIONS-BRUSSELS

1. THIS PROVIDES A MORE DETAILED REPORT ON THE MEETING ON
MONDAY, 12 SEPT, IN BRUSSELS ATTENDED BY SIR ROY
DENMAN, AMBASSADORS MCDONALD AND HINTON, AND WILLIAM CUL ERT.

2. THE MEETING WAS OPEN AND FRANK ON BOTH SIDES AND INTENDED
TO SERVE AS A PRELIMINARY DESCRIPTION OF THE PROBABLE U.S.
POSITIONS AT THE TIME OF THE VISIT BY AMBASSADOR STRAUSS TO
BRUSSELS ON SEPTEMBER 21-22. DENMAN WAS ATTENTIVE BUT, AS
EXPECTED, NONCOMMITTAL. HE CONTINUED TO PRESS FOR A MINIMUM
RESULT ON THE TARIFF FORMULA, SUGGESTING THAT A 25 PER-
CENT GOING-IN POSITION WITH NO EXCEPTIONS WOULD PROBABLY
PRODUCE THE MAXIMUM RESULT THE COMMUNITY COULD SUPPORT.
HE DID ACKNOWLEDGE THAT THE COMMUNITY IS NOT YET SOLID
ON ITS POSITION, HOWEVER, PARTICULARLY REGARDING
EXCEPTIONS. BUT HE APPEARED REASONABLY OPTIMISTIC THAT
THEY COULD PROCEED WITH THE OCTOBER 1, STEP ON A NO-EX-
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THEY COULD PROCEED WITH THE OCTOBER 1, STEP ON A NO-EX-
CEPTIONS BASIS.

3. MCDONALD OUTLINED THE U.S. POSITION AS BEING FLEXIBLE IN SOME OF THE COMPONENTS INFLUENCING THE FINAL TARIFF RESULTS BUT STRONGLY IN FAVOR OF AN AGGRESSIVE MOVE AT THE OUTSET THAT EVEN WITH SLIPPAGE WOULD PRODUCE A PERCENTAGE RESULT AT THE END OF THE DAY COMPARABLE TO KENNEDY ROUND CUTS. HERE ARE THE FOUR CRITICAL AREAS OF DISCUSSION:

A. EXCEPTIONS:--WE INDICATED THE U.S. IS CONSIDERING THE POSSIBILITY OF A NO-NET-EXCEPTIONS APPROACH. THIS WOULD MEAN THAT WE WOULD BALANCE OUR MANDATORY EXCEPTIONS AND A LIMITED NUMBER OF ADDITIONAL ONES IF DEEMED NECESSARY WITH GREATER THAN FORMULA CUTS ELSEWHERE. DENMAN WAS INTRIGUED BY THIS IDEA, BUT SUSPECTED THE U.S. WOULD PROBABLY EXCLUDE MEANINGFUL AREAS FOR THE EC, STILL LEAVING MAJOR PEAKS, WHILE COMPENSATING BY CUTTING TARIFFS ON "GARBAGE." MCDONALD RETORTED THAT WE WOULD HAVE EXTREMELY DIFFICULTY FINDING COMPENSATING AREAS, THUS REQUIRING THE U.S. TO LIMIT WHEREVER PRACTICAL ITS EXCEPTIONS.

B. LEVEL OF TARIFF CUT:--WE REITERATED THE 40 PLUS .5X FORMULA CONTAINED IN TPSC 7762 AND IN AMBASSADOR WOLFF'S RECENT LETTER TO DENMAN. IN SUM, HE SPECULATED THAT A GOING-IN POSITION AT ABOUT 45 PERCENT LIMITED OFFICIAL USE

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REDUCTION WOULD BE NECESSARY TO ACHIEVE A 35 PERCENT FINAL RESULT BECAUSE OF SLIPPAGE FROM ANY NUMBER OF SOURCES DURING THE COURSE OF THE NEGOTIATIONS. MCDONALD SUGGESTED THAT STRAUSS WOULD FIND THE 25 PERCENT FIGURE MENTIONED SEVERAL TIMES BY DENMAN AS UNACCEPTABLE. FOR A NUMBER OF REASONS, INCLUDING THE FOLLOWING:

(1) THE U.S. HAS ALREADY PAID POLITICAL PRICE FOR ITS TRADE MANDATE AND TO USE SUCH A SMALL PROPORTION OF THE 60 PERCENT AUTHORIZATION WOULD CERTAINLY HAMPER ANY FUTURE EFFORTS TO OBTAIN ADEQUATE NEGOTIATING LATITUDE. IT COULD ALSO COST US NEEDED CONGRESSIONAL SUPPORT FOR NTM APPROVALS LATER.

(2) SUCH A MODEST FORMULA AGREEMENT WOULD

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SP-02 FEAE-00 OMB-01 AF-10 ARA-10 EA-10 EUR-12
NEA-10 OIC-02 IO-13 /131 W
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FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 1046
INFO AMEMBASSY BRUSSELS

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USMTN

USEEC

IMMEDIATELY SIGNAL TO CONGRESS AND TO THE
AMERICAN BUSINESS COMMUNITY THAT NO SIGNIFICANT
ACHIEVEMENTS ARE EXPECTED IN THE TOKYO ROUND;
SINCE TRADE GROWTH HAS AVERAGED ABOUT DOUBLE
THAT OF NATIONAL GNP OVER THE LAST FEW YEARS;
SUCH A MODEST CUT WOULD REPRESENT TO BUSINESS
THE PROBABLE LOSS OF THIS POSITIVE ECONOMIC
ENGINE, PERHAPS SIGNALING AN ACCEPTANCE OF
RELATIVELY STAGNANT ECONOMIC GROWTH RATES AND
THUS DIRECTLY DISCOURAGING CAPITAL INVESTMENTS
IN ALL DC'S.

ALTHOUGH WE AGREED THAT TARIFFS WERE ONLY ONE PART AND
PERHAPS NOT THE MOST IMPORTANT ELEMENT IN THE TOKYO
ROUND NEGOTIATIONS, THE FORMULA LEVELS AGREED UPON WOULD
STILL BE VIEWED AS AN INDICATOR OF HOW AGGRESSIVELY OTHER
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FACTORS IN THE PACKAGE WOULD BE DEALT WITH LATER AND
WOULD THEREFORE ESTABLISH GENERAL EXPECTATION LEVELS.

C. DEGREE OF HARMONIZATION:--WE INDICATED
FLEXIBILITY ON THE SPECIFIC FORMULA THAT MIGHT BE
CONSIDERED BUT CLEARLY STATED TO DENMAN THAT THE LOWER
THAN OVERALL TARIFF REDUCTION THE MORE LINEAR WE WOULD

SEE THE RESULTS. ON THE OTHER HAND, IF MORE HARMONIZATION WAS ONE OF THE PRIME EC OBJECTIVES, THEN THIS COULD ONLY BE ACCORDED AS WE MOVED INTO A HIGHER RANGE OF FORMULA REDUCTIONS. IN SUM, WE IMPLIED THAT THE DEGREE OF HARMONIZATION FEASIBLE WOULD BE ROUGHLY PROPORTIONAL TO THE DEPTH OF REDUCTIONS AGREED UPON IN FORMULA.

D. STAGING:--WE INDICATED UNDERSTANDING AND SYMPATHY WITH THEIR IMMEDIATE POLITICAL AND ECONOMIC PROBLEMS, POINTING OUT THAT WE FACE SIMILAR ONES THAT MAY EVEN BE MORE POLITICALLY CRITICAL LATER REGARDING MINORITY UNEMPLOYMENT. CONSEQUENTLY, WE WERE WILLING TO LOOK AT A VARIETY OF STAGING APPROACHES TO ACCOMPLISH TARIFF REDUCTIONS SPECIFICALLY TO AVOID MAJOR DISRUPTIONS IN TRADE FLOWS AND ABRUPT INDUSTRIAL DISLOCATIONS.

E. TARIFF FLOOR:-- WE INDICATED THAT OUR POSITION WAS STILL OPEN ON THE QUESTION OF TARIFF FLOORS, RECOGNIZING THAT IN EFFECT THE EC'S INITIAL FORMULA PROPOSAL PROVIDED A FLOOR OF 2 1/2 PERCENT. DENMAN SUGGESTED THAT WE SHOULD HAVE NO PROBLEM REACHING AGREEMENT HERE.

4. CONCERNING ARRANGEMENTS FOR AMBASSADOR STRAUSS' VISIT, DENMAN IS TAKING A DETAILED INTEREST IN WORKING LIMITED OFFICIAL USE

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THOSE OUT. THESE DETAILS WILL BE COVERED BY SEPARATE CABLE WHEN COMPLETED BUT AMBASSADOR STRAUSS WILL HAVE AT LEAST TWO OPPORTUNITIES FOR PRIVATE MEETINGS WITH MR. JENKINS WHICH COULD BE BENEFICIAL TO US.

5. DENMAN IS STILL CONCERNED ABOUT THE INFRASTRUCTURE EFFECTIVENESS OF GATT TO KEEP THE NEGOTIATIONS PROGRESSING AFTER WE MOVE FROM PROCEDURAL ISSUES INTO THE PROCESS OF RESOLVING SUBSTANTIVE DIFFERENCES. HE IS RECEPTIVE TO ANY DEAS WE MAY HAVE ON THIS SUBJECT.

6. FINALLY, DENMAN TENDED TO RATIONALIZE THE MINIRESULT LEVELS HE SUGGESTS IN TARIFFS BY PRESSURES OF THE TIMETABLE AND UNFAVORABLE ECONOMIC CONDITIONS. MCDONALD REITERATED THAT, BASED ON CURRENT FORECASTS, WE CANNOT COUNT ON A FAVORABLE ECONOMIC ENVIRONMENT TO CARRY US OVER. CONSEQUENTLY, WE MUST KEEP A LONG-TERM PERSPECTIVE ON WHAT WE ARE TRYING TO ACCOMPLISH IF WE ARE TO HELP AVOID CONTINUED STAGNATION OR DETERIORATION IN THE WORLD'S ECONOMIC SITUATION.MCDONALD

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Message Attributes

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